

ORIGINAL

BEFORE THE
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

DEPT. OF TRANSPORTATION
DOCKETS

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Application of

BOSTON-MAINE AIRWAYS CORP.

for issuance of an amended certificate of public
convenience and necessity pursuant to 49 U.S.C. § 41102
(Interstate Large-Aircraft Operations)

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: Docket OST-00-7668
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**SUPPLEMENT NO. 2 TO
APPLICATION OF
BOSTON-MAINE AIRWAYS CORP.
FOR AMENDED CERTIFICATE AUTHORITY**

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Attorneys for
BOSTON-MAINE AIRWAYS CORP.

September 26, 2002

1245048 v4

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DEPARTMENT OF TRANSPORTATION
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Boston-Maine Airways Corp., d/b/a Pan Am Clipper Connection ("BMAC") hereby submits this Supplement No. 2 to the captioned application for the purpose of responding to certain further questions and requests for information contained in the September 19, 2002 request by the Air Carrier Fitness Division (Attachment A, infra.), as follows:

1. Line of Credit Facility. In order to meet its first-year working capital availability requirement, BMAC is relying, in part, on a \$750,000 Line of Credit facility provided by BMAC's parent company, Pan American Airlines, Inc. (PAA) (see Exhibit BMA-110). A similar facility, which BMAC has never utilized, was accepted

by the Department as part of BMAC's financial fitness evidence in connection with its initial certification in 2002.

The Fitness Division has asked for evidence of PAA's ability to support the foregoing Line of Credit, based on the fact that PAA had a negative working capital position of over \$5.7 million as shown on its June 30, 2002 Balance Sheet (see Exhibit BMA-S/1-2).

As reflected in the attached Balance Sheet of PAA as of September 15, 2002 (Exhibit BMA-S/2-1), PAA's working capital position has improved substantially since June 30, 2002.¹ Additional cash is expected to be derived from the sale of a portion of the \$4,750,000 in Assets Held For Resale (consisting primarily of B-727 aircraft airframe parts, JT8D-15 engines and rotatable parts) between now and the end of the year. Based on the current and anticipated continuing improvement in its working capital position, PAA expects to have a positive working capital balance in excess of \$2 million before BMAC commences operations toward the end of 2002.

The combination of PAA's current and expected future improved working capital position provides substantial assurance that PAA will be fully able to fund

¹ Two significant components of that improvement resulted from the recent infusion of \$1,987,857 in cash to PAA through an account in the name of its non-operating subsidiary, Pan American World Airways, Inc. (PAWA) (See Exhibit BMA-S/2-2) and the reduction of PAA's prepaid travel liability from \$2,937,104 on June 30th to \$1,778,596 on September 15th.

drawings by BMAC against its \$750,000 line of credit facility, as required, throughout BMAC's first year of large aircraft operations.

2. Impact of Pan Am Service Reductions on BMAC.

As reported in the trade press (Aviation Daily, September 17, 2002, p.3), BMAC's sister carrier, Pan American Airways Corp. (Pan Am) implemented a significant but temporary reduction of its service to various East Coast points and the Dominican Republic for the next three months, and made a corresponding reduction in its workforce and grounded several aircraft², due to substantial traffic declines in the area in which Pan Am's curtailed services are operated.

As that article noted, however, the Jetstream turboprop services operated by BMAC are not expected to be affected by the temporary reductions in Pan Am's flight schedules. It is too soon to determine whether Pan Am's recent service reductions will have any material impact on BMAC. BMAC notes, however, that its own new services to Canada have already developed strong load factors and are profitable. BMAC has also recently rescheduled its three daily roundtrip flights between Baltimore (BWI) and Cumberland and Hagerstown, Maryland to provide additional convenient

² Pan Am noted that its temporary workforce reductions and aircraft groundings are the first such steps it has taken since the terrorist attacks of September 11, 2001, in contrast to the very substantial employee layoffs and service reductions implemented by virtually every other major U.S. airline except Southwest.

morning and evening connections at BWI to the services operated by several other carriers at BWI. BMAC is strongly committed to maintaining and expanding its turboprop services, and its lessor, Guilford Transportation Industries (GTI) has, just last week, finalized the acquisition of 13 additional Jetstream 31's to bring BMAC's total Jetstream fleet up to 23 aircraft.

BMAC does not anticipate that Pan Am's recent and temporary service reductions will have any adverse impact on BMAC's traffic and revenues.

3. First-Year Aircraft Limitation.

In response to the Fitness Division's comment noting its practice of limiting initial grants of large aircraft authority to the number of aircraft which the applicant proposes to operate during the first year of expanded service, BMAC confirms that it plans to operate one B-727-200 aircraft in scheduled interstate service during the first year of such operations. Accordingly, BMAC would have no objection to a condition limiting BMAC to a single B-727 aircraft for interstate services during the first year, subject to three provisos: (1) that BMAC be permitted to use a part of the time of a second B-727 aircraft, to be leased from its existing aircraft lessor and used as needed as a maintenance spare from time to time, (2) that BMAC would remain free to apply to the Department for authority to operate an additional B-727 aircraft in interstate service during the first year if circumstances warrant such additional capacity, and (3) that the proposed limitation to one B-727 aircraft for interstate services would not

preclude BMAC from applying for, and being granted, authority to operate additional large aircraft in foreign air transportation services, as described below.

In connection with that third proviso, BMAC notes that it plans to apply in the relatively near future for authority to operate additional B-727 aircraft to be used in serving certain foreign markets in Canada and the Caribbean. Under the Department's applicable regulation, that application for foreign authority could not be combined with BMAC's pending application for interstate authority (see, 14 CFR Section 201.4).

BMAC deliberately accelerated its filing of its pending application to amend its Interstate Certificate of Public Convenience and Necessity, before it had completed the traffic and economic analysis required in connection with its planned foreign authority application, because of the linkage between the Department's action on that Certificate amendment application and BMAC's ability to commence the necessary FAA Part 121 application process to add the Boeing 727-200 aircraft to BMAC's Part 121 Operations Specifications.

The sole reason for the limitation of BMAC's interstate application to a single "off-shore" market is based on a restriction applicable to the B-727 aircraft planned to be utilized by BMAC which prohibits the utilization of that aircraft (and 14 other B-727 aircraft acquired by BMAC's lessor, GTI, at the same time from the same seller (United Air Lines)) in any interstate operations within the continental United States for

a period of five years. GTI's willingness to accept that restriction enabled GTI to acquire the 14 B-727-200 aircraft it purchased from United on highly favorable terms.

BMAC fully intends to submit complete and detailed evidence of its financial fitness to operate large aircraft in specific foreign markets in its forthcoming application for authority to serve the foreign points it will propose to serve. That fitness demonstration will enable the Fitness Division to fully examine BMAC's ability to satisfy the Department's financial fitness requirements in the context of its subsequent application for foreign authority.

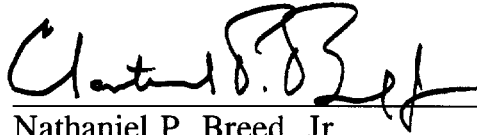
BMAC strongly urges the Department not to defer final action on its pending interstate certificate amendment application to await BMAC's future submission of a separate foreign application.³ As the Department is well aware, such a deferral would preclude BMAC from commencing its FAA Part 121 application, which entails full CSET procedures, and would impose a lengthy and extremely costly delay on BMAC's ability to begin its initial B-727 services in the San Juan-St. Thomas market in time for the upcoming Winter 2002/2003 peak travel season.

WHEREFORE, BMAC requests the Department to expedite its issuance of an amended Certificate of Public Convenience and Necessity authorizing BMAC to

³ The timing of that application is uncertain at present and is dependent upon a variety of factors including aircraft availability and traffic seasonality.

provide interstate air transportation of persons, property and mail, utilizing both small and large aircraft, as requested in its pending application in this proceeding.

Respectfully submitted,



Nathaniel P. Breed, Jr.
SHAW PITTMAN LLP
Attorneys for
BOSTON-MAINE AIRWAYS CORP.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing Supplement No. 2 to Application of Boston-Maine Airways Corp. by messenger, telecopier transmission, or United States mail, properly addressed and with postage prepaid, upon each of the persons listed in the Service List attached hereto.



Cara L. Graham

Washington, D.C.
September 26, 2002

1245048 v4



"Davis, Janet"
<Janet.Davis@ost.dot
.gov>

09/19/2002 05:00 PM

To: "Nathaniel.Breed@shawpittman.com"
<Nathaniel.Breed@shawpittman.com>
cc:
Subject: Boston-Maine's Application

Nat,

I have finished my review of Boston-Maine's Supplement No. 1 to its application for amended certificate authority. This review has found that the financial information presented for Pan American Airlines, Inc. (Boston-Maine's parent) does not support a finding that this company has the ability to provide the funds committed (line-of-credit of \$750,000) to Boston-Maine. Indeed, the June 30, 2002, balance sheet submitted indicates that Pan American Airlines, Inc., has a negative working capital position of more than \$5.7 million and a negative stockholders' equity position of more than \$14.9 million. Therefore, we can not accept the line-of-credit provided as evidence that Boston-Maine will have funds sufficient to meet our financial fitness criteria available to it. As a result, Boston-Maine must submit a new financing plan, accompanied by independent 3rd-party verification, which fully demonstrates that it will have access to sufficient financial resources meeting our financial fitness criteria.

Further, given the current situation at Boston-Maine's sister company, Pan American Airways Corp. (Pan Am), coupled with the fact that Boston-Maine provides most of its current operations as a feeder carrier to Pan Am, we ask that Boston-Maine specifically address the impact that Pan Am's cutback has had on its current operations and will have on its future operations.

Finally, as you may know, it is the Department's practice to limit the number of large aircraft that newly certificated air carriers may operate to the number proposed in the application on which any fitness determination regarding large aircraft operations is based. In the case of Boston-Maine, while its initial certificate did not contain a limitation on the number of aircraft it could operate, this is because it instead restricted the company to operations with small aircraft. Under most circumstances, a company that receives a certificate for small aircraft operations only is not then also restricted to operations using a specific limited number of such aircraft. However, in cases where, as here, a company proposes to operate both large and small aircraft, it is our practice to place a limit on the number of large aircraft that may be operated under the certificate while not similarly limiting the small aircraft operations the operator may conduct. (See, Order 2002-6-12, issued May 14, 2002). Therefore, if Boston-Maine is eventually determined to be fit for large aircraft operations, it is our intention to limit such operations to the single B727 aircraft on which Boston-Maine has based its request.

Please respond fully to the above within 14 days. As always, please accompany Boston-Maine's response to the above with the certification required by Title 18.

Janet

BOSTON-MAINE AIRWAYS CORP.
INDEX TO SUPPLEMENT NO. 2 EXHIBITS

<u>Exh. No.</u>	<u>Title of Exhibit</u>
BMA-S/2-1	Pan American Airlines Balance Sheet as of September 15, 2002
BMA-S/2-2	Third-Party Verification of Pan American Airlines Working Capital Cash Position
BMA-S/2-3	Title 18 Certification

PAN AMERICAN AIRLINES, INC.
Balance Sheet
September 15, 2002

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	1,987,857
Accounts Receivable (net)		1,201,548
Inventories		2,535,991
Prepaid Expenses & Deposits		194,400
Total Current Assets		<u>5,919,796</u>

Fixed Assets (at cost):

Airframes	740,210
Flight Equipment	3,987,821
Buildings & Improvements	1,420,262
Ground Equipment	2,445,922
Maintenance Equipment	1,229,122
Furniture & Fixtures	572,998
Leasehold Improvements	6,203,938

	<u>16,600,273</u>
Less Accumulated Depreciation	(4,179,077)

Net Fixed Assets	<u>12,421,196</u>
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Assets Held For Resale	4,750,000
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Deferred Charges	7,749,862
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Intangible Assets	500,000
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\$ 31,340,954

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current Liabilities:

Accounts Payable	\$ 4,745,702
Accrued Expenses	2,236,887
Unearned Income	1,778,596

Total Current Liabilities	<u>8,761,185</u>
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Long Term Liabilities:

Due to Related Party	37,729,735
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Stockholders' Equity (Deficit):

Common Stock (10,000 shares authorized, 1497 shares issued and outstanding, \$3,000 par value)	4,491,000
Preferred Stock (36,000 shares authorized, 36,000 Shares issued and outstanding, \$1,000 par value)	36,000,000
Accumulated Deficit	(55,640,966)

Total Stockholder'Equity (Deficit)	<u>(15,149,966)</u>
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Total Liabilities and Stockholder Equity (Deficit)	<u>\$ 31,340,954</u>
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USER: 02 SEP 17 06:52 AM EDT

Exhibit BMA-S/2-2

FLEET BANK

BALANCE/TRANSACTION REPORTER
DAILY COMPOSITE REPORT 3
AS OF SEP 16 2002

FLEET BANK OF MASS

941533-753

PAN AMERICAN WORLD AIRWAYS UPDATED SEP 17 04:18 EDT

LEDGER BALANCE	1,987,857.39
COLLECTED BALANCE	1,912,612.39
AVAILABLE BALANCE	1,916,529.39
TOT CREDITS	1,782,790.97
TOT DEBITS	214,406.02
MTD AVG COLLECTED	347,501.32

.... C R E D I T S

MONEY TRANSFER CREDITS (MTCR)

110,000.00 / FED WIRE CREDIT BANKREF (NONE)
CUSTREF (NONE)
020916018352 (1) TIME: 1211
ITM=2209161211 ORG= PAN AMERICAN WORLD AIRWAYS 14 AVIATION
AVE PORTSMOUTH, NH 03801- REF=004476 RTM=2209161211 SBR=2002
2916120115LB SNO=A011420071 BANKNORTH, NATIONAL ASSOCIATION
20020916120115JB PAN AMERICAN WORLD AIRWAYS

110,000.00 MONEY TRANSFER CREDITS (MTCR) REQUESTED

ACH CREDITS (ACHCR)

165.30 CORPORATE TRADE PAYMNT CREDIT BANKREF 022565820176
CUSTREF 0000283213
VIAJES GALIANA I TRANSFER SALES 3-9 SEPT.-TURAVIA
REF. 20912

CTX

165.30 ACH CREDITS (ACHCR) REQUESTED

CORRESPONDENT BNK & FED CRS (FEDCR)

1,600,158.33 / BANK TREASURY - CREDIT BANKREF 000900511443
CUSTREF (NONE)
2792116

1,600,158.33 CORRESPONDENT BNK & FED CRS (FEDCR) REQUESTED

DEPOSITS (DEPCR)

63,357.00 DEPOSIT BANKREF 005302300098
CUSTREF (NONE)
9,110.34 DEPOSIT BANKREF 025322299712

CUSTREF (NONE)

72,467.34 / DEPOSITS (DEPCR) REQUESTED
1,782,790.97 TOTAL CREDITS REQUESTED

Exhibit BMA-S/2-3

Application of _____

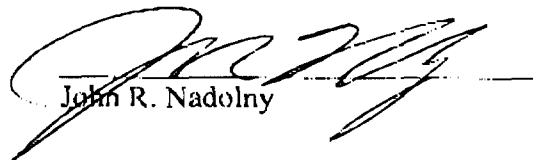
BOSTON-MAINE AIRWAYS CORP.

Docket OST-00-7668

For issuance of an amended certificate of
Public convenience and necessity pursuant
To 49 U.S.C. Sec. 41102 (Interstate Large-
Aircraft Operations)

CERTIFICATION

Pursuant to Title 18 United States Code Section 1001, I, John R. Nadolny, in my individual capacity and as Senior Vice President, General Counsel and Secretary of the applicant, have not in any manner knowingly and willfully falsified, concealed or covered up any material fact or made false, fictitious or fraudulent statements or knowingly used any documents which contain such statements in connection with the preparation, filing or prosecution of this application. I understand that an individual who is found to have violated the provisions of 18 U.S.C. 1001 may be fined not more than \$10,000 or imprisoned not more than 5 years, or both.


John R. Nadolny

State of _____
County of _____

Subscribed and sworn before me this 26th day of September, 2002.

Notary Public

SERVICE LIST (Boston-Maine Airways SJU-STT)

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